



SENT TO COUNCIL:

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Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Mark Linder

SUBJECT: SAN JOSE MUNICIPAL WATER
PARTNERSHIP WITH SAN JOSE
WATER COMPANY

DATE: March 4, 2003

Approved

Date

3-6-03

INFORMATION

The purpose of this Information Memo is to provide the outcome regarding the San Jose Water Company and San Jose Municipal Water System proposals for utility billing and fire hydrant maintenance.

BACKGROUND

The City Council, at its May 21, 2002 meeting, authorized a negotiating team from the City to meet with San Jose Water Company and return on August 20, 2002, with the best possible proposal from San Jose Water Company. The City's negotiating team, comprised of Council member David Cortese, Joe Guerra, Gerald Silva and Mark Linder, distributed an Information Memorandum on August 19. The information memorandum provided a status of the negotiations. The memorandum also included an evaluation of the financial condition of the City's Municipal Water System conducted by the City's independent auditor, Macias Consulting Group, and responses to requests for information from Council member Cortese and Council member Reed.

At its January 14, 2003 meeting, the City Council requested that the City Auditor review a proposal from San Jose Water Company for utility billing services and fire hydrant maintenance to verify the costs. Further, the Council requested that if the auditor verified that the San Jose Water Company could provide water billing and fire hydrant services at rates both competitive and cost effective to the City that the City Manager is asked to perform the following tasks:

- 1) Work with the staff from Environmental Services Department, City Manager's Office, AFSCME Local 101, Operating Engineers Local 3, and as appropriate members of the negotiating team to review the San Jose Water Company proposed scope of services.
- 2) Encourage AFSCME Local 101 and Operating Engineers Local 3 to provide information as appropriate relating to the San Jose Water Company's proposed scope of services,

and/or at their option respond to the current San Jose Municipal Water System cost estimate for the same scope of services.

- 3) Re-bid a request for these services to San Jose Municipal Water System in compliance with the City's Managed Competition policy.
- 4) Provide to the City Council and the MWS negotiating team a report on these sessions no later than March 4, 2003.

ANALYSIS

In response to Council action, the City Auditor reviewed the San Jose Water Company proposal of January 6, 2003, and verified the scope of services and costs outlined in the proposal. The Auditor submitted his report to the negotiating team on January 28. The City Manager's Office convened a meeting of Environmental Services Department, City Auditor's Office, AFSCME Local 101 and Operating Engineers Local 3 on February 3, 2003 to review the Auditor's findings. Following this review, Environmental Services Department staff was asked to submit a proposal for San Jose Municipal Water System to provide the utility billing services and fire hydrant maintenance services.

Environmental Services submitted a proposal on February 14, 2003. The City Manager's Office convened a second meeting on February 20 to review the submission. Representatives of the City Manager's Office, Environmental Services, City Auditor's Office, AFSCME Local 101, Operating Engineers Local 3, the Mayor's Office and Councilmember Cortese's office participated. The group reviewed the two proposals.

The group agreed to provide the information to the MWS negotiating team and the City Council.

Utility Billing

The San Jose Water proposal to include the City's municipal water billing into its utility billing system is:

- \$ 315,000 per year for ten years. The annual cost would be adjusted for CPI. MWS would also pay \$75,000 in one time transition costs to provide training to MWS employees on the SJWC system and for data conversion to the SJWC system. The City would continue to provide some customer service of up to \$126,437 (cost of two customer service representatives).
- Total ten year cost without CPI adjustment and without City customer service staff is \$3,225,000.
- Total ten year San Jose Water Company cost without CPI adjustment and with one City customer service staff is \$3,775,000.

The Environmental Services Department proposal to provide municipal water billing is:

- Up to \$300,000 in one time start up costs to merge with the Recycle Plus utility billing system. Annual operating costs would be \$206,437 with CPI adjustments over a ten-year period.
- Total ten-year cost without CPI adjustment is \$2,364,370 and includes two City customer service staff.

Fire Hydrant Maintenance

The hydrant maintenance and repair responsibilities formerly provided by the Department of Transportation transferred to the retail water providers on January 1, 2003. San Jose Water Company in its January 6, 2003 letter proposes to provide fire hydrant maintenance service for \$135,000 per year. This annual cost will be adjusted for the CPI. There are no startup costs. The cost of repairs and replacements of fire hydrants is not included.

The ten-year cost for San Jose Water to provide hydrant maintenance without a CPI factor is \$1,350,000. The proposal calls for a three-year maintenance cycle. Repairs and replacements are not included, but would be performed on an as needed basis.

Environmental Services Department proposes to provide fire hydrant maintenance service for \$127,980. The cost of repairs is not included.

The ten-year cost for ESD to provide hydrant maintenance without a CPI factor is \$1,279,800. The proposal calls for a three-year maintenance cycle. As with the San Jose Water Company proposal, this proposal does not include repair and replacement. Repairs and replacement would be performed on an as needed basis.

Summary

In summary the proposals are as follows:

Ten Year Cost/No built in CPI

San Jose Water Company	San Jose Municipal Water System
Billing without City CSR - \$3,225,000	
Billing with 1 City CSR - \$3,775,000	Billing with 2 City CSR - \$2,364,370
Hydrant Maintenance - \$1,350,000	Hydrant Maintenance - \$1,279,800

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Next Steps

The Council can select a service provider for Municipal Water System Utility billing and Fire Hydrant maintenance. Staff will work with whoever is selected to develop a contract for services. If the Council seeks additional information, staff will prepare and present that information to Council.

COORDINATION

This report was coordinated with the City Attorney, the City Auditor, AFSCME Local 101 and Operating Engineers Local 3.

CEQA

This information is a not a project under CEQA



MARK LINDER
Assistant City Manager

cc: MWS Negotiating Team